



“Mahindra Holidays & Resorts India Limited Q4 FY’20
Earnings Conference Call”

May 11, 2020



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Moderator: Good morning, ladies and gentlemen. Welcome to the Q4 FY'20 Earnings Conference Call of Mahindra Holidays & Resorts India Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kavinder Singh -- Managing Director and CEO of Mahindra Holidays & Resorts India Limited. Thank you and over to you sir.

Kavinder Singh: Good morning and a very warm welcome to our Q4 FY'20 and Full Year Earnings Call. Hope you and your family are healthy and staying safe during these uncertain and unprecedented times. Today, I am joined by Mrs. Akhila Balachandar, our Chief Financial Officer, Mr. Dhanraj Mulki – our Company Secretary and our Chairman - Mr. Arun Nanda. I had requested Mr. Nanda to come for this investor call and share his thoughts. It is my honor to bring Mr. Nanda on the call. Over to you sir.

Arun Kumar Nanda: Thank you Kavinder. First of all, let me greet a warm welcome to all my dear friends. I join Kavinder in his prayers for you, your families and all your near and dear ones to remain safe and healthy during these difficult times. As I have been saying, in my 70-years, I have not seen such difficult times. But we hope and pray this too shall pass. I do not want to take too much time on that and we can talk about later.

I just want to go back to 11th June 2019 when I after a long time came and spoke to you at an Investor Conference at the Four Seasons Hotel. The reason for doing that was a big change in our accounting policy which had upset us all because we were allowed to account for only 4% of our turnover, whereas majority of the cost of sales, cost incurred had to be booked in the same year itself. That had affected our profits significantly, but I had also projected that this is the good news for the investors because it brings predictability of future earnings. I am very happy to tell you that we had projected a VO income of Rs.344 crores and we are at Rs.346.7 crores. We had projected an ASF income of Rs. 289.6 crores and we are at Rs. 291 crores. The deferred revenue of cumulative carryforward as we had predicted was Rs.5,476 crores, we are at Rs.5,371 crores. This number would have been very close to Rs.5,476 crores if our sales were not lost in the significant part of March. March is our peak month and we did not get any of the sales. The income would only have come to the extent of 4%. That is why the difference is not showing and it is showing in deferred revenue. I think later on Kavinder can tell you what the March '19 sales were and March '20 would have been similar. And if you add that difference, you will probably come to the same figure.



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The good news as again I had told you that while we carry forward revenue unbooked of Rs.5,519 crores, the deferred cost which we carry forward against that is Rs.713 crores, that means Rs.4,806 crores is clean profit and majority of it is realizable in cash and we are carrying it in the books purely because of IND AS 115. This is earned and except for a small portion where realization of the receivables may not happen, and our receivables are much less than that. So this Rs.4,806 crores, I repeat this is an earned profit which is not booked and 75% to 80% of that is also realizable in cash. I am very proud to say that my team, led by Akhila predicted these figures since I passed my chartered accountancy more than 50-years ago in 1969, I have never seen projections made a year ago being so close to what they have been achieved. So it just shows not only the quality of the management, the quality of team, but it also shows a very high level of predictability because of this accounting standard.

For my young friends, I have a question if some of you, very bright ones could answer. If you see my balance sheet I have Rs.781 crores of cash sitting in my books. I have receivables of Rs.1,682 crores and I will digress a little, I have spent 47-years in Mahindra and dealt with various industries. If you have debtors of the nature of auto cars, or of housing which are the two big borrowing industries, the securitization costs are high because the guy who buys your book has to physically control the asset. In our case, the assets are in our possession, and the right to use is in our control, that is why although we will not have any need to securitize those receivables, but I can tell you that if you want to securitize the Rs.1,682 crores, we will get rates at least 200 to 300 basis points lower than what the other people who have securitized the books will pay for. We also have a fixed asset of Rs. 2,082 crores, therefore the total value leads to Rs. 4,545 crores. And with zero debt in our books and the wisdom of our investors, our market cap at Rs.1,662 crores, is nearly one-third of realizable asset, forget brand, forget 5,519 crores of revenue which we have not booked, which net of cost is Rs.4,806 crores, if you add all that it is Rs. 10,000 crores, plus. I want to make one more point, the written down value of our resorts is Rs. 700 crores. Today, it costs Kavinder more than a crore of rupees a room to build the resort and we have around 2,000 plus rooms in our books. So there is a depreciation and escalation into that, that is another Rs. 1,400 crores. If you add all of that, means forget future earnings, on what we have in our balance sheet, the value is close to Rs. 11,500-12,000 crores and you are valuing my company at Rs. 1,662 crores. I am an old man, analytics at our time was not there, but I would like to be educated about that one day. This does not include HCRO which we own 100% and I will come to HCRO.

I am not going to talk in details about operations, but I treat this pandemic as “Samudra Manthan” which you might have read in our Hindu mythology. There will be Vish and there will be Amrit. And I am reasonably sure that Mahindra Holidays is going to benefit from that. Kavinder will expand on it later.



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I just want to make two points -- One, domestic tourism is going to increase. And the second is that, we have a very strong base of committed members. Kavinder, I believe you are going to talk about this in detail on what the future looks like and all that. Most of you, and I am using the word "most of you", had very strong apprehensions when we took over HCRO. I want to share some facts, In FY17 there was a loss of €7.21 million, from FY18 we turned positive and made profit of €4.72 million, FY19 result, as I told you last year was affected because there was a contractor who went bankrupt and had to write-off a significant amount. This year, March has been totally wiped out and March being the highest season, we not only lost our resort income but also timeshare sales. Despite whole month of March was written-off, we have still made a small profit. As you can see from our results, we are continuously making profits from last three years.. I want to give you another good news because anybody who will value HCRO will take EBITDA multiple and deduct the debt. When we took over the company, the debt was €51.7 million and today, the debt is €19.6 million. So, that means we have paid over €32 million of debt. If you give no credence to the EBITDA growth, which you should give, then also the value of the investment has gone up by €32 million, which is 50% of what we have invested to become 100%. If you take the EBITDA growth into account, you will come to a very different figure, but I do not want to tell you that. I just want you to analyze and those of you who want to understand this are free to take time from Akhila and understand and she will take you through those figures. Akhila, was I right in my figures?

Akhila Balachandar:

Yes sir, that is perfectly correct.

Arun Kumar Nanda:

I want to share another piece of information with you. Both at HCRO and Mahindra Holidays, resorts were used as something which was required to sell timeshare and the profit was supposed to come from timeshare. When we took over HCRO, and when Kavinder took over Mahindra Holidays, I had made a request that we should get these resorts to close to break even without taking the ASF income because the ASF income is actually for maintenance of resorts. I said only from FIT sales and sale of food and services, etc., you should do that. And I am pleased to say that had it not been for March (our resorts were closed), we would have been close to the breakeven and I think Akhila has some figures and these used to be double-digit losses in earlier. So, it is not only other operations, we have tightened a very large potential source of income and going forward these are things which will help us.

I want to draw another thing to your attention which Akhila please correct me or you can expand later. In our consolidation, there are two large items -- There is a FOREX hit of Rs 23.6 crores and there is Ind AS116, the change of accounting for lease hit of Rs 20.24 crores. I want to tell you that the loan that we have got for Holiday Club in one of our subsidiaries is backed 100% by FOREX assets. The assets are in euro, the debt is in euro, so there is a natural hedge. Till 2016 the accounting standards allowed you to do a hedge accounting if the asset and the liability were both in foreign currency, would you net the two, then this Rs 23.6 crores would not have



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come. In 2016, they said you cannot take the upside, but you have to take the downside. I am on record, this Rs 23.6 crores is not a cost because the underlying assets are in foreign currency. And Ind AS 116 is purely a book adjustment, because in the case of holiday club, they have long-term lease rental agreements, that is why the figure is Rs 20.24 crores. If these two accounting changes had not happened, our profit at a consolidated level would have been higher by Rs 43.9 crores, that means an increase of nearly 48%. In these times to achieve this, is really creditable for Kavinder and his team.

You know, we have been every year from 2016 hit by policy changes of the accounting standards, which have distorted our results. I would request you to please look at the inherent business model and not the book. Like a lot of newspapers have said, we made a cumulative loss of Rs.166 crores. You know, it happens with every company because the deferred tax asset was created on the basis of 35% tax and now the carried loss will be at 25%. So, it is not a loss. One will have to pay lesser tax. So, one is carrying the benefit to that extent.

Let me end by giving you one good news that going forward, because of this 35%, 25% as the VO income gets transferred to P&L account, the post tax profit will have an advantage of 10% because we will pay 25%-odd as against 35%-odd and there is another good news which you will see when the detail accounts comes up. As prudent Mahindra company and prudent auditors, we have provided for tax on 60:40 basis. But we know and our tax advisors have confirmed that, now with the introduction of ICDS, our taxation should be done on the basis of book accounts and they cannot take an arbitrary figure of 60%-40% or 100% of the income, you have to take the book accounts. If that happens for a few years, going forward, we will have no cash outflow on tax because of the 60%-40% that we have done and I do not want to get into details. If you want to understand, Akhila will explain but I am telling you, these are positives that I would say, are reasonably possible. You might say that the Income tax will not allow it, but we are reasonably confident that is the tribunal level, we should win this because it is part of the law.

So, my friends, I would request you only one thing. Please study our accounts and understand our accounting system and our business model little more carefully, because we have been hit by these drastic accounting changes, whether it is hedge accounting, most of it is on account of the VO income I told you, that Rs 5,519 crores is deferred income against the carry-forward expenses of Rs.713 crores, Rs.4,806 crores is income realized. Please look at these factors when you plan on taking decision on our company.

I am going to sign off and I take this opportunity to wish you and your families and all your near and dear ones best of health, and safety. Please use this quality time to spend more time with family, this is the best advantage that has come from lockdown And to all my male friends, please do contribute to household chores, because we are becoming like our friends in the west



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where no domestic staff is allowed to come. With these few words, god bless you all, stay happy, stay healthy. Thank you. Over to you, Kavinder.

Kavinder Singh:

Thank you very much, Mr. Nanda and I think this was a great opening. We have a larger perspective which is coming in from our chairman, and I would now move on to take you through the views that we have at Mahindra Holidays and I will also talk through on Holiday Club.

Let me begin by saying that today as the world comes together to fight the pandemic, we at Mahindra group have undertaken multiple initiatives under both preventive as well as the critical care for the affected people in line with our “Mahindra Rise Philosophy”. As you know we have developed low cost respirators to supply to hospitals. We have offered our resorts as temporary care facilities to fight against the pandemic. We have manufactured Hand Sanitizers as well as Face Shields for Health Workers and launched Free Emergency Cabs which is under the brand name “Alyte” for the people in need. These are the initiatives that our group has taken across the businesses.

I think parallelly at Mahindra Holidays we are using this time to get prepared for the new normal. As you know that the hospitality and aviation businesses have been significantly impacted, and since travel and tourism contributes to almost 10% of the GDP, the impact is rather widespread. You must have heard about industry associations taking up the issues with the government for various relief measures, whether it is debt restructuring, payment of statutory dues or direct benefit transfer for the people engaged in the hospitality sector. These are the things which are today out in the news.

So, I will move on from there to what is our point of view going forward. Our point of view is that once the travel restrictions are eased off, domestic travel will recover faster. Number two, drivable destinations for leisure trips will become more popular. Hygiene and safety will be the key concern and consumers will make choices accordingly.

At these times we at Club Mahindra are gearing up and focusing on the following: When resorts open, can we deliver contactless experiences?. Whether it is at the check-in time, check-out time, dining experiences and In-resort experiences, we need physical distancing. But can we have enjoyable activities with families and friends while remaining physically distant.? We are also gearing up for best-in-class hygiene and safety standards in the resort, public areas as well as in the apartments.

While doing this, what is happening on our customer acquisition side? At this point of time, we are using this time to transform ourselves to a digital world that we are already in. Whether it is about calling prospects, through videos, and making presentation on videos, whether it is training our people on how to set up video calls with the customers, whether it is training the sales team virtually on the new destinations, unique and interesting experiences in the current reality in and



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around resorts, or whether it is using the member brand evangelist program to assist in closure of sales, we are doing it all. As you know, three years ago, we had launched our “Mobile App.” We did not realize at that time how handy it will come, particularly in the contactless check-ins and various experiences at the resorts which will be continuously notified through the app.

I want to add also a few things that we realized that we have some unique advantages in this sad situation. Our resorts are spread out and our apartment sizes are bigger. So when we talk of social distancing, expanse of our resorts and bigger apartment size is an advantage. Our resorts are away from the cities and are close to nature, another advantage.

Let me now delve a little bit on what are the strengths that we see in our business model and are we truly unique and resilient? When we look inside, we realize our biggest strength is our member base of over 258,336 member families. And we believe that our member base will look forward to holidaying with us knowing fully well that we will take care of their hygiene and safety particularly in the drivable distance resorts and large part of our resorts are at a drivable distance from metro cities. They are aware that we will be ensuring that while they are at our resorts, we will still deliver the magical moments while keeping physical distancing in mind. So, this is as far as the customer side is concerned, the strength that we see in our business model.

The second advantage that we see in our business model is the liquidity position that we have. And as you know, we have zero debt and we have improved our cash position from Rs.572 crores to Rs.781 crores and that gives us additional comfort in these trying times.

Our deferred revenue pool which Mr. Nanda had talked about is upwards of about Rs.5,500 crores, and most importantly, it gives clear revenue visibility... and we have mentioned this in our ‘investor deck’ also for the forthcoming periods and this we had mentioned in our 11th June meet will significantly improve profitability and this is something that we see playing out.

Our focus on receivables management, quality member acquisition, and execution excellence has resulted in a fairly, healthy cash position which I mentioned earlier.

I can also mention that resilience of our business model is visible through our growth in profit before tax in this quarter. On a standalone basis, our profit before tax grew by 27% despite the pandemic situation in March '20. As we speak, our project at Goa, Assonora, the brand-new resort is coming up and due to the lockdown the project has got impacted. Having said that, starting 4th May by following all the social distancing norms and with local permissions, as you know Goa is a green zone, we have started the construction again.

Ashtamudi is another resort in Kerala where the expansion will start once we get all the permission. You know we have land banks for building Greenfield projects and extension opportunities in the existing resorts are also possible in our scheme of things.



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Let me move on to the “Business Performance.” I just want to bring to your notice that there have been two changes in this year: IND AS 116, which is a new accounting standard was notified on March 31, 2019 and became applicable effectively April 1. As you know this accounting standard does following things to our accounts. There are changes in the balance sheet under IND AS 116 which requires lessees recognize lease assets, right of use and lease liabilities. There are changes in the P&L account under IND AS 116. There is an amortization of right of use asset and notional finance cost on the lease liability which substitutes the actual lease rental cost. What it simply means is that you will notice our lease rentals come down, but our depreciation and a new element of financing cost comes in. In our business, the impact has been negligible, but in the Holiday Club resort, the impact has been of the order of about Rs 21 crores, adverse impact.

Income Tax Ordinance: We have adopted the lower tax rates. We took the decision in Q4. We are now on a tax rate of 25%. The resultant impact as a result of taking this decision is on the deferred tax asset where we had an accumulated deferred tax asset which we had to, there was a one-time transition impact which is what you see of Rs 199.73 crores in our standalone financial results and that is what has changed our deferred tax position. Our deferred tax net now stands at Rs. 248 crores as on March ‘20 compared to Rs. 426 crores as on March ‘19.

Let me move on to the “Operational Aspects of the Performance.” You know COVID-19 has affected our performance in March. We had to shut down almost on a daily basis resorts in line with local advisories as well as falling occupancies. So, we notice that the impact of the COVID-19 in March was especially on member additions and resort operations. The impact on vacation ownership income, annual subscription income, interest and other non-operating income was minimal. We have added 3,616 members this quarter as against 5,671 in the previous year, and this has taken our cumulative member base to 2,58,366. This is a year-on-year increase of 6.1%. Our net member addition count for the year stands at 15,697 members, of course impacted by COVID-19 in March.

By the way, I will spend a few seconds on member engagement. Even during the COVID times, we have been ensuring that we remain connected with our members. We are running various digital campaigns. And we are noticing that there is significant amount of engagement happening as a result of that. You may remember that we have talked about building our experience ecosystem and there was significant progress in the year that has gone by, and also the “Club M Select” is the program that we had launched has grown and we are now adding various wellness offerings in that.

Let me move on to “Resort Operations.” Our resort occupancies for Q4 were at 72.2% versus 83.7% same period last year. Resorts performance has got affected as you know because of the pandemic. And our resort occupancy therefore for the full year is 80.3% for FY’20, while until



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December we were at 83.1%, and despite the pandemic we were able to achieve occupancy of more than 80% for the full year.

“Inventory Additions.” We added in Q4 three resorts -- Agra, Mysore and Bangalore -- taking our total resort count to 70 and the number stands at 3,732 rooms. With our Holiday Club subsidiary we have 60 domestic and 51 international destinations. For the year, we moved from 61 to 70 resorts and I did talk about the room count already.

Let me move on to the “Standalone Financial Performance.” I would like to highlight that our income for the quarter has moved up by 1.3% in this quarter at Rs.255.5 crores. Profit before tax for this quarter is Rs. 29.1 crores as compared to Rs.22.8 crores which is a growth of 27.3% on YoY basis. Not only that we were able to improve our PBT margins by 232 basis points in the current quarter. Profit after tax has gone up to Rs. 30.5 crores as compared to Rs. 14.4 crores. Obviously, there is a benefit of lower tax rate. But if the tax rate lower benefit had not come, even then our profit after tax would have gone up to Rs. 18.7 crores which would be a growth of 29.6%. Total income for the year as you know has gone up by 7.6%. Our profit before tax for the full year is at Rs. 124 crores which is a growth of 23.7% and profit after tax before the one-time transition impact on account of lower tax rate, of course, transition impact is Rs.199.73 crores. Even if we had not taken the lower tax rate, we would have been at a profit after tax of Rs. 79.7 crores which would be a growth of 24.8% for the full year at tax rates.

I think let me move on to “Holiday Club Resorts.” The operations of our Finnish subsidiary, which includes majority of spa hotels and resorts in Finland, as well as in Sweden and Spain, were adversely affected due to COVID-19 during March '20. As was stated earlier, this is the peak season, particularly in Finland, and that has impacted the performance. Having said that if you look at the year-to-date figures which is all uploaded on our website, there was a significant improvement in performance in Holiday Club Resorts till December 2019. As we were doing well in January and February also till March affected the performance. As you can see under the Finnish accounting standard, the Q4 revenue was €38.9 million as against €46.7 million. So we attribute about €7.8 million contraction in turnover due to the COVID-19 effect. The profit before tax is therefore at €0.8 million for Q4 despite the impact in March as against €5.2 million for the same period last year. I think it is very obvious if March had not impacted the holiday club resorts performance, we would have something very-very significant to talk to you about.

For the full year, the spa hotel turnover has increased by 3% despite taking a big hit in March, and this was backed by higher occupancy and growth in revenue compared to FY'19. Finance cost has reduced by €0.45 million as loan of €5.5 million has been repaid in the current financial year. The good news for us here is that our debt is down by €32 million from the time we acquired this company. And the consolidated turnover for the Quarter as a result of the COVID is slightly lower at Rs 631.4 crores as against Rs 656.6 crores for the same period last year. And the profit



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after tax is at Rs.38.82 crores (before one-time transition impact on account of lower tax rate adoption) versus Rs.52.3 crores for the same period last year. If I look at full year, the good news for us is that we delivered 48% growth year-on-year basis, if I exclude the IND AS116 and the FOREX adjustment that Mr. Nanda was talking about, that is a very significant growth in performance at consolidated level. Just for your knowledge consolidated profit after tax for the year before one-time transition impact on account of lower tax rate is Rs.65.5 crores as compared to Rs.59.6 crores last year.

At this point of time, I thank you for joining this call and Akhila and myself are available to answer any questions that you may have at this point of time. Over to all of you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: My first question was obviously related to COVID. The thought obviously I had about the core Club Mahindra product, the 25-year-old, and the 10-year-old Bliss says is that it is a high ticket item in terms of purchase, and it is travel related. In this environment where there is an issue in terms of job losses and reducing income and obviously a little bit of scare related to travel, I just wanted to understand in the coming year what do you think how would this scenario pan out in terms of getting new members on board? And also, you did mention about your change in distribution in terms of getting members, but just a little more thought on that?

Kavinder Singh: I think a very fair question and much appreciated. It gives me an opportunity to share how we are thinking about the customer acquisition. So let us begin by just making it very clear that we have two segments of our business within the timeshare. We have timeshare customer acquisition piece of the business and then we have the resorts business. I think the resort business I mentioned very, very clearly the moment the travel restrictions are eased off... and by the way, you may notice that even in China, the domestic tourism is now beginning to... actually I do not want to use the word 'boom' but hotels are already experiencing 50% occupancies and even the tickets for the Disney as they are opening are being sold out. So there is a big pent up demand in my view that will open up the moment the travel restrictions are eased off and people learn to live with the fact that they have to wear masks, they have to sanitize, and they have to maintain distance. If they learn to live with this new normal, they will still want to go to drivable distances which is where we are present. Hygiene and safety will be key concerns, which as I mentioned earlier, we will design and we are already there as I speak and we will be best-in-class, that is the other thing that I can assure. So when the members and their guests would begin to come to our resorts. First of all, we have an onsite sales channel. And that is something that we have already made plans to ramp up that part of the sales channel. There is a second sales channel that we use which is face-to-face meetings, and this is where, as you know, for the last three to five years, we have been preparing on our digital journey. We today generate significant amount of



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leads digitally. That in my opinion will continue...and I will answer the consumer sentiment part also. So the lead generation even now as we speak is going on digitally. Having said that, we think that we have to master is to convert digitally. I am not at liberty to tell you what is happening in the month of April and May as we speak. All I can tell you is that digital conversions are happening. Having said that, they are not happening at the pace at we would like it to be because our people are learning and also the sentiment, as you rightly mentioned is low, and having said that, what we have done, we are very-very conscious of the fact that there will be a desire first of all to travel, there will be a desire to travel to drivable distances, there will be a desire to be with a brand which will be conscious of safety and hygiene. If this desire continues and the pent-up demand that I was talking about, I think over a period of time, there will be a positive that we will see in customer acquisition... I am consciously using the word, 'over a period of time'. Having said, in the meanwhile, while the sentiment is not so good and while the plans are not being made for holidaying, people are definitely talking to us and they are saying, "Let things ease off a bit, we are very-very excited to sign up with you." Second thing we are also noticing is there is bigger interest on the lower tenure products. I can comfortably tell you that the three-year product "Go Zest" that we had launched, is seeing traction like we have never seen before. Having said that, we are very-very clear that we have a portfolio of products, whether it is a 25-year product or let us say 10-year or a three-year. And now we are ready to ensure that this portfolio plays out with the hands of the customer. Customers will obviously make their own choices. And I must also share with you that it is a well-known fact in the timeshare world that when people come into the sampler products of three years, etc., they eventually graduate into the higher order product. So we may go through a phase where we may see more shorter tenure products been bought by people who will eventually see the experience and the fact that domestic tourism will be seen, the fact that we are going to be ensuring the experiences happen with safety and hygiene and comfort. And once this is established... which will take some time, the moment that happens, there will be a demand for them to convert them from shorter tenure to a longer tenure because I want to make one point which we say to our customers that in these uncertain times there is only thing which is certain that Club Mahindra remains committed in serving 258,000 plus members not for today, not for tomorrow, we are talking about 25-year tenure. So, our whole business model is built on certainty and longevity. And that is something that we believe will put us in good stead in the coming times.

Nihal Jham:

In terms of member addition of 3,616 for this quarter, would it be possible to break up how Jan and Feb were and how March did?

Kavinder Singh:

As of now, we have not put that out in the public domain but we take your request and we will come back but I can confirm this to you that in March whatever we had planned to do, we ended up doing probably 35%, 40% of that. So that probably largely explains why we were expecting to grow beyond 5%, 6% and we would have probably grown at least 10% if not more, that is what we were looking at and if you say let us say we were supposed to grow from at 6,000...



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because we would have hit 18,000, we were very sure which is the number that we had achieved last year at the total level and just this drop has softened us you can say already at least 2,400 in March. So that is the kind of drop that we had. And we are very-very clear that had it not been for pandemic we had great momentum in fact in the first 10, 12-days around the holi time. Post the holi time around 10th March, we noticed the problem beginning to happen and yet I think in certain parts of the country there was no COVID-19 and therefore the momentum continued for a while and then of course it pitted off.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Sir, I had two questions: One is when we look at the overall member base, right, 2,58,336- and assuming two weeks of loss of ability to take a vacation, it essentially implies that we have 40,000-odd weeks that we will have to satisfy either during this year or next year. Just wanted some thoughts around how we are going to sort of reimburse the members and if possible what could be the cost?

Kavinder Singh: So first of all I want to give you the comfort, there is really no cost. Let me tell you how it works. So, in our case, members can accumulate up to three years of their room nights. So we typically have members who have seven nights. They can actually accumulate up to 21-days.

Aditya Bagul: I understand that, people wanted to take this vacation in these last two months and could not, I understand they could roll forward, they could go up the pyramid, they could go diagonal, there are multiple ways that they could use this night. I am just saying that if they decide to go through the other channels for example, they decide to use our partner hotels instead of Club Mahindra property, is there an additional cost which is attached?

Kavinder Singh: So, let me explain you how it works. So first of all, as far as the demand side is concerned, I do not think that the moment travel restrictions are eased off, there will be demand and it will sort of begin to come up. So there will be a transition period that will happen. And during this transition period, first of all we do not see any issues in satisfying the demand because anyway all of them will not come at the same time to holiday. And considering the fact that the peak season, April-May-June is more or less getting over, we are entering anyway into a lean season which is in July-August-September where our occupancies are typically low. And just in case there was this pent up demand and it came in July-August-September we are well geared to handle it. Having said that, the partner hotels will also of course open. We have this inventory exchange program. The partner hotels which we have got 180 of them around the world and of course 100 of them in India and since we are talking India right now, they will also slowly and gradually open. When it comes to the payout from our side is concerned, first of all, we get very-very good price from these hotels and the resorts, and we do not keep any margin and the same price is passed on but the way we handle is as you know there is a room night that the member



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has and we value it internally and there is a small exchange fee that the members pay. Now, are you saying that the partner hotel demand will skyrocket and therefore we will have to make the payment valuing the room night to the partner hotels? Theoretically yes, but practically I do not see that as an issue. So, as far as we are concerned we do business modeling. We do not see this to be of a significant value or impact.

Aditya Bagul:

Second question sir both to you and Akhila ma'am is we have seen a significant reduction in terms of the other operating overheads in Q4. Just wanted to understand how much of this is structural in nature, how much is essentially because there was a reduction in terms of resort income and there were two weeks of shutdown in March?

Kavinder Singh:

I just want to mention this before Akhila can come in with the relevant figure. See, just at a conceptual level, I wanted to make it clear that is a very good question. I just wanted to let every participant know that in our business and this is a strength that we again have which we did not talk about, a very large part of our cost are variable actually. If you run resorts, there are costs. If you do not run the resorts, even lighting and electricity which is the big energy cost goes down dramatically. And if you really look at the cost the hotels have typically, the debt which we do not have, and energy is the other one and then we come to the people cost. If you really look at the people cost, we have structured our compensation particularly in the front line in sales even at the middle level and senior level, there is incentive which gets accrued when the sales happen. So since the sales part had to come down, there is that loss of incentive which is built into the compensation structure. So in our case even people cost have a variable component. And that variable component, if the outcomes are not achieved, obviously, that variable component does not become payable by design. This is not a system that we design today. This has been there for many years. So by design, I would say that we are a resilient business because our variable cost actually come in line with the sales and the moment we pull back because of the pandemic situation we saw, we were able to drop our variable cost very-very quickly and that is what you are seeing as an impact and that is why to some extent our margins also improved. But I would let Akhila handle this question. If Akhila wants to come in, most welcome. Akhila, please give your perspective.

Akhila Balachandar:

Thanks, Kavinder. I am just adding to what Kavinder has rightly said. In any hotel business, we have three main fixed cost – one is the people cost, second is the HL fee, which is actually semi-variable and of course the payment on the debt which is the interest cost. In our case, we do not have the interest cost which is known to all of you. As far as the people cost goes, like Kavinder rightly said, a large portion of our people cost is also variable with incentive-driven. Even our cost of acquisition is actually highly variable and semi-variable, for example, our lead generation activity, it is completely variable. We do a lot of engagement activities for prospective and in these times since you are unable to do some of these activities, these costs have not got incurred. To that extent, a large portion of our costs are variable or semi-variable. Marketing cost that we



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spend on brand building to some extent is semi-variable. We do a lot of spends on the digital which is again semi-variable. But apart from that, a large chunk of our costs is actually variable, and therefore we will see that the cost has come down in Q4.

Aditya Bagul: Incrementally, when we are talking about 258,336-odd members, is there a chance you can give us a split of how much are coming from Zest product, how many are from Bliss and how many are from standalone 25-year product?

Kavinder Singh: The dominant part which is my answer which stands in the year that has gone by, ...when I say dominant, I mean, very significant and very minor part is coming from the Bliss and Go Zest, it is still a 25-year product. Akhila, if you want to add you go ahead.

Akhila Balachandar: I agree with that. Dominant portion is still CMH 25, the rest would be Bliss and the three year product.

Moderator: Thank you. The next question is from the line of Sachin Shah from Emkay Investment Managers. Please go ahead.

Sachin Shah: I have a couple of questions. ASF revenue is a big source of revenue for us for our resort management cost or resort maintenance cost. Are we seeing any challenges on the ASF revenue collection and do you foresee any of that going ahead and if at all then how do we plan to take care of that side? Second, since we have such a large cash balance of whatever Rs.780-plus crores, any thoughts on how do we plan to utilize because there will be some opportunities coming up in terms of distressed assets or those kinds of things, so any first prima facie thoughts at this point in time? And third, Kavinder, you did mention about there will be a lot of demand for locations. So do we have our city wise, resort wise breakup in place, in the sense that suppose if we have 20% of our members from City-A, do we have rooms around that city which is equivalent to 20% of our total rooms, how does it work because otherwise again there could be a mismatch in terms of the demand and supply that we have and again customers or the members may not get the availability of the rooms that they would like to go to?

Kavinder Singh: Thank you, Sachin, and as usual, your questions are extremely insightful. So let us just handle that one-by-one. First question was on "How will you handle the ASF collections?" I just want to share with you that the pandemic has definitely made some people ask whether they would like to postpone the ASF payment. But we have been considerate, in the sense that we have been saying that the rules of the membership are that you need to pay your annual fee because that is required for maintenance of resorts and services that we offer. And I must say that good news is that we have seen a very significant response on the ASF collection including in April where we had to increase the ASF by about 5.6% because of the fact that we have an inflation-linked formula that you are aware of. By the way we have some very interesting models – "If you pay ASF in advance, then you do not need to pay the increase that will come next year." So we have



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fairly some amount of advance payments also. And of course, there is a late payment fee which is there of a small fee which we charge if you pay late. And by the way it is important for sometimes to engage with consumers and members and say that “There is an attractive offer that you have if you pay right now.” We have to do all of these. But having said that, at this point of time, members are valuing their membership more than ever. They would not like to default. Part of the reasons is they also believe that in these times the best bet after the lockdown eases and restrictions are eased off is to go to Club Mahindra, one because you are confident of the hygiene and safety standards that we will follow, the trust that we enjoy. And second, the fact is that we are now going to be a little bit averse on spending money on hotel. So you come to our resorts, you do not have to pay for the rooms. So there is a value that is being assigned we are noticing and we are noticing our ASF collections are going on well. So that probably answers your first question. The second question is on “Are we likely to look at distressed assets and will we buy them?” Answer is a very big ‘yes.’ At this point of time, there are opportunities that we do see, but we are very careful because we would not like to buy in a hurry, we would definitely like to look and because of the lockdown, obviously, we cannot inspect right now, but there are opportunities coming to us and we are going to prioritize drivable distance resorts versus resorts which are farther away from the city. Now, coming back to the third question that “Have we mapped our member demand to the drivable distances?” The answer is yes and we know where the issues are if any. And that is being addressed by looking at the new opportunities. But I also believe that the rush for travel is not going to be exponential. It will build up over a period of time. And we will get sufficient time to either take new resorts on lease because we are getting a lot of opportunities of that kind also. And by the way prior to the COVID pandemic, we had also lined up a few resorts which we were about to take on lease. Because of the lockdown, we could not progress. So by the way that action will also be initiated which are again by the way nearer to our metro, the new resorts that we are taking on lease. So I feel comfortable, yes, there could be times when there may be more demand than supply in certain periods let us say Diwali of this year or for the fact new year. Those things may happen, but I feel that we will be probably much better placed than what we have been ever before because of one, that we have a very strong pipeline of leased resorts that are coming in, we have our own construction going on in Goa, which should get completed in about three to four months the moment this lockdown opens up. So we see significant inventory coming in this year both on the lease side as well as on the down side. And as a result of that, we feel we are going to be in a significantly better position because we have done a lot of work last year and previous year and the fact that they are in drivable distances and the fact that demand will take some time to build up which will also be the time that will be available and therefore I feel fairly confident on that aspect also.

Moderator:

Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.



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Tarang Agarwal:

I must take this forum to congratulate the team to demonstrate the cash generation capabilities that the business has generated. With the tangible change in your equivalence in the last six years, that being said, as I look at your balance sheet construct, you have almost 1682 crores of debtors which is almost 30% of your balance sheet in your standalone financials. Relating to which I have the following questions: One, given that the number is substantially high now and given that this is a discretionary spend, and considering the times that we are in, don't you think that it is the best time for you to securitize these receivables because holding them now would essentially result in you taking a lending risk which is non-core for your business?

Kavinder Singh:

First of all, securitization, we would do if we needed cash. We do not have any forecast. As you know we already have about Rs.781 crores. Let us discuss this lending risk. Really speaking unlike the other financing companies where there is an asset, where they give the loan against, in our case if you do not pay your membership fee EMI, you are not entitled to use the facilities at our resorts. So we have a very strong analytics-based check on the defaulters on the payment. We routinely track the overdue payment. And we have very strong mechanisms to alert in advance and of course various methods are used to reach out to the people who are likely to even default. We have analytics based propensity models also. And we have mastered this art over the years actually as to how to reach out to the potential customers and remind that the proposition that they have signed up for is so great because of the fact that they would really get their fair value in eight, nine years of the money that they have paid and after that they keep enjoying holidays almost for free, which is the fact because that is something that we show for people and there are people who are members who keep telling us what they have got. So, this is a value proposition. And a small time change in your emotion or mood if you default you are likely to lose out on this big membership that you have already signed up on. So we have very-very strong models on predictability of the revenue collection and we are constantly demonstrating those models in front of our auditor and we make sufficient provision as per the accounting norms which is under the estimated credit law. And whatever we report to you are net of those provisions and despite that you can see our profits are growing, our income is growing, our cash is growing. So this is something that I have seen at least over the last five, six years that I have been around and I think over the years the business has demonstrated how to manage these debtors. We believe there is a huge positive of these debtors. Let me give you the positive from the consumer side. We do not make any consumer run around from pillar to post for getting the financing. We finance, #1. #2, we get significant interest income as a result of that. And that is something that we believe today we have the financial strength to continue in this part of the business if you call it as a financing part.

Tarang Agarwal:

I take your point. In a scenario where the customer has paid for his installments, like the subscription money at the time of adapting the membership and if the dues are only relating to maybe his ASF fee. But if the skew is more towards the installments, and less towards the ASF, then maybe perhaps that argument will hold little merit. So, from customers perspective, okay,



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if I paid for the product, the Rs.4 lakhs or Rs.5 lakhs in advance, then I am less likely to default from my ASF because I cannot use the facilities for which I have already made that high payment upfront. So maybe perhaps if I were to ask you a little differently, if you could probably give me a broad split between your ASF and installment debtors in that 1682 crores?

Kavinder Singh: Akhila, we have that split, am I right?

Akhila Balachandar: We generally do not put this out in the public domain the overall levels of debtors. Only information is that these debtors are all post the provisions that we make.

Kavinder Singh: I can also add to Akhila that I agree with you the larger part of the debtors is the EMI part and I just also wanted to mention to you one of the reasons we never considered giving this to any third-party and not have this on our book is because please remember, we are a hospitality company. When it comes to collections, we have mastered an art of collecting these dues because we want these members to come to our resorts, ensure that they regularly pay annual fee, they enjoy the facilities. So there is a way you deal with the customer who has signed up for a hospitality club membership rather than for consumer durable loan. So we believe that there is a very-very unique nuance here and we believe there is a big income upside for us as a result of it and we have managed this risk for long enough and we also believe that our method of collections and our brand proposition is so strong and the fact that our provisioning policies are also robust that this is something that it is worth continuing in this manner.

Tarang Agarwal: Sir, I will probably get back about this again maybe sometime later. Just one last question that I had. So the HCRO debt has come down from €51.7 million to €19.6 million, almost €32 million, right. But when I look at your consolidated debt ex-lease borrowings you all have around Rs. 326 crores of debt which would almost translate to € 38 million. So, why is there a disconnect then?

Akhila Balachandar: So there are two components to the debt -- One is what we have referred to as the reduction in debt from €51.7 million to €19.6 million is the debt in HCRO standalone books. We also have debt in their own books for running their own operations. And what we have been communicating is the reduction in the debt in their books. Second portion, MHRIL, when we invested into HCRO, we have done is through a special purpose investment vehicle sitting out of Mauritius and we have taken loans on the strength of our balance sheet in euros in his SPV. That loan still continues. And that is roughly around € 70-odd million, you see a split of a number that is shared because under the disclosure norms, something goes under current, something goes under long-term, so there is a lot of disclosure requirements on splitting between the two. But it will be roughly €70 million that would be our borrowings for these investments.

Moderator: Thank you. The next question is from the line of Manoj Bahety from Carnelian Capital. Please go ahead.



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Manoj Bahety: During this lockdown, are you thinking of some kind of moratorium in terms of ASF as well as interest on receivables and as well as little extension to the expiry of the days to the customers? And also in respect of our leased properties, are we getting some moratorium in terms of rental payments?

Kavinder Singh: As far as the EMI and ASFs are concerned, let us remain very-very open about the fact that the consumer sentiment expects you to be flexible and let me assure you being a hospitality player I did mention a lot about the collection methods that we have to follow which are very different from the consumer durable players or banks. So we are very-very sensitive. There is a way to deal with both the EMI and ASF collection. So one of the ways to look at things is that can you give a bit of an incentive for people to pay on time? And you will be surprised that people are quite excited to look for those small deals if they can get in these times. And if you know this consumer psyche, then it is not about moratorium, it is about "Can I get some small benefit? Well, I pay on time." So that is what we are focusing on right now. And if someone is very specific saying that "Listen, I am not in a position to wait." We are on a case-by-case basis able to adjust the dates. So that is something that we are doing. Coming back to your next question, "How are we handling this holiday accumulation part?" We had cases where people holidays were expiring. Beyond 21-days we do not allow the accumulation. And that again we have formed a policy. We understand that people cannot holiday at this time and then we have allowed the extension through that number of holidays which were expiring. So those days are allowed to be carried forward. So, these are the things that we are doing in a very consumer-friendly manner... and we are by the way in constant touch because our member servicing not even a single day we have been off the grid whether it is the app, whether it is the website, whether it is the call center, everything is working from the day the lockdown has happened, people are all available, working from homes, you name a query and it will get answered. By the way I have not had similar experiences from banks, just to let you know. So it is not that the customer service is also something that we can take for granted, but I can very proudly say that the levels of customer service that we are delivering on timeliness is exemplary and we are getting a lot of positive appreciation from members in writing as well as in the social media. On moratorium on rental is very-very simple. I think during the period of lockdown, there is no problem to ask for moratorium and get the moratorium and that is what we are engaging because I think all the people have this very deep understanding that the industry is in trouble. So that is something that obviously we have relationship. By the way we have a long-term contract. So for us our relationships with the owners of the resort is very simple: We are saying that "Listen, we are here for next 10, 15, 20-years whatever is the length of the contract." So, we are handling and maintaining our relationship with them in a very-very amicable and positive manner. We will be fair and reasonable and which is what we are going to be when it comes to rental. And the same thing we have done in Holiday Club Resorts also because there also we have some rental payment. So, I think that is not an area of concern when it comes to dealing with the people to



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understand that this is a unique situation and definitely depending on the capacity of the landlord or the owner there are solutions being found to this issue, it is not a problem.

Manoj Bahety: But moratorium in your case means just deferral or ...?

Kavinder Singh: It again depends, Manoj, on the size of the resort, it depends on the length of the contract, it depends on the relationship that we have enjoyed over the years. So it is a combination. You would appreciate that in any commercial transaction, you will have to be sensitive to the other side. See, we are a part of Mahindra Group. We are going to be fair and reasonable. We are not going to behave in a manner which will affect the relationship and also the fairness. There are a lot of variables that go into that, Manoj. But I am very happy to say that things are in control and there is a fair amount of reasonable progress that we are making in that.

Manoj Bahety: In the current scenario, when the competition could become very rigor, there is the ample good quality assets which may be available at bargain or throw-away prices, so internally are you preparing a task force to identify those opportunities and make use of the surplus cash which is lying in the balance sheet? Because one thing which I would like to mention here is definitely there is a huge value in Mahindra Holidays stock if I compare the current market valuation vis-à-vis the parent value, but at the same time if there is a good amount of bargain or value, which is lying in front of you in coming six months and one year, definitely investors are going to watch you also, that is how you are going to use the cash, so just wanted to understand your thoughts?

Kavinder Singh: I think we have a very clear view there, Manoj. Our view is very simple that if we get a resort or a hotel property which is in line with our means of Club Mahindra in drivable distances around the key metros, we are definitely a buyer. Having said that, we will not buy something which does not come at the right price. So, at this point of time, there is a task force which is working full time in this area. As I mentioned in some of the other comments that because of the lockdown we are not in a position to go and see these properties. The moment the travel restrictions are eased off, we will be in a position to take some decisions obviously which will be in the interest of the shareholders of Mahindra holidays to get the property, one, which are attractive from a consumer standpoint, second, which are attractively priced. So, answer is yes.

Moderator: Thank you. Due to time constraints, I would now like to hand over the call to Mr. Kavinder for closing comments.

Kavinder Singh: I think this has been a great interaction. As I have always mentioned that we learn a lot by interacting with you. It is an honor and pleasure to be standing in front of you. And we remain committed to deliver on whatever we say here or whatever we have been saying over the years and we are very-very thankful that you are by being in this call reaffirming your faith in our business and I am very –very confident that we are not in this business for just two, three months



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which is the problem right now or six months or eight months whatever be the time, but we are here for 25-years and beyond. We are very confident in delivering our magical moments for our member family going forward in the future. Yes, there will be a new normal. We will be prepared for the new normal. And I can assure you that we are at work. While even during this lockdown actually working much harder to ensure and demonstrate to you that we are indeed a unique and resilient company. Thank you so much for patient listening.

Moderator:

Thank you. On behalf of Mahindra Holidays & Resorts India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.